

Table of Contents

Executive Summary	Click Here To View	i
Introduction		1
Background		1
Audit Objective, Scope, And Methodology		2
Major Accomplishments Related To This Program		3
Finding I		
Weak Control Over The City's Cellular Phone Program Increases The Risk Of Abuse		5
The City Has About 450 Cellular Phones With Limited Or No Use		6
Departments Do Not Consistently Follow The City's Wireless Telephone Policy Regarding The Authorization To Purchase And Use A Cellular Phone For City Business		6
City Cellular Phone Usage Indicates Potential Abuse		7
City Departments Do Not Consistently Collect And Report Employee Reimbursements For Personal Uses Of City-Issued Cellular Phones		9
The City Reimbursement Rate For Personal Calls Is Not Cost Recovery		10
The City's Wireless Telephone Policy Needs Updating		11
CONCLUSION		12
RECOMMENDATIONS		13
Other Pertinent Information		15
Administration's Response	Click Here To View	17
Appendix A	Click Here To View	
Definition Of Priority 1, 2, And 3 Audit Recommendations		A-1
Appendix B	Click Here To View	
Memorandum – Accomplishments		B-1
Appendix C	Click Here To View	
Memorandum – Updated Cellular Phone Options		C-1

Table of Exhibits

Exhibit 1

Limited To Low Use Phone Costs And Usage 6

Exhibit 2

Calls Incurring Extra Charges 16

Introduction

In accordance with the City Auditor's 2003-04 Workplan, we have audited the Information Technology Department (ITD). Specifically, we audited the City's Cellular Phone Program. We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

The City Auditor's Office thanks the Information Technology Department (ITD), and other City staff for giving their time, information, insight, and cooperation during the audit process.

Background

The City maintains a Citywide Wireless Telephone Policy (Wireless Telephone Policy) established in 1989 and revised in 1994. It governs the acquisition, use, and personal call reimbursement for City cellular phones. According to the Wireless Telephone Policy, City cellular phones enhance the operational effectiveness and efficiency of staff while away from the office and are invaluable during emergencies. Moreover, the Wireless Telephone Policy acknowledges that cellular phones are costly to operate and expenditures need to be controlled.

The Wireless Telephone Policy specifies that the City limits the purchase and use of cellular phones to limited circumstances when other means of communication are determined to be infeasible or impractical. The Wireless Telephone Policy sets out four eligibility criteria for approving the purchase and/or use of a cellular telephone for official City business – that are:

- Necessary for promoting public or employee safety,
- Required by Executive Staff by the nature of their jobs to spend a significant amount of time in their vehicles and who receive a high volume of time-sensitive calls,
- Unquestionably needed given job responsibilities for cellular communication, or
- Approved by the City Manager for official City business.

Additionally, the Wireless Telephone Policy allows for personal use of cellular telephones, which the employee deems appropriate or necessary. The Wireless Telephone Policy outlines a process for reimbursement to the City for personal use of City cellular phones. The City Administration is revising its reimbursement policy.

*City's Cellular
Phone Program*

Prior to 2003-04, the Information Technology Department (ITD) administered the Citywide Cellular Phone Program. Specifically, the ITD coordinated cellular phone activations, equipment purchases, billings, and reimbursements. In 2003-04, the ITD decentralized the City's Cellular Phone Program into the respective City departments¹. City departments are now responsible for ordering cellular phones, paying for phone bills, and tracking personal usage and reimbursements.

According to past reports for March 2003 to February 2004, the City had about 1,600 cellular phones. The combined annual usage was over 5.2 million minutes with a cost of about \$930,000. As of July 2004, AT&T and Nextel report that the City has 1,420 active AT&T and 208 active Nextel cellular phones with a combined annual usage of about 5.3 million minutes.

**Audit Objective,
Scope, And
Methodology**

Our audit objective was to review the City's Cellular Phone Program and identify control weakness regarding compliance with the Wireless Telephone Policy and potential abuse.

We reviewed electronic usage information for about 1,400 AT&T phones for March 2003 to February 2004. We did not review electronic usage information for the City's over 200 Nextel phones, as that information was not readily available. Nor did we review usage information data for the cellular phones assigned to the offices of the Mayor and City Council because of City Charter Section 805 limitations.²

We conducted electronic data reliability tests by comparing AT&T database information to written paper bills. We interviewed staff from City departments and documented the

¹The IT Department retained control of Mayor, City Council, City Manager's Office and Retirement cellular phones.

²City Charter Section 805(d) states in pertinent part "The City Auditor shall have access to and authority to examine any and all documents...and other property of any City Department Office or agency...with the exception of the Office of any elected official."

processes for phone authorization/use, usage review and personal call reimbursements. We provided summaries of interviews to staff for factual confirmation.

The Office of Employee Relations is reviewing cellular phone usage information to follow-up for possible personnel action. We are assisting Employee Relations in its review.

**Major
Accomplishments
Related To This
Program**

In Appendix B, the Interim IT Director informs us of the City's Cellular Phone Program accomplishments.

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Finding I

Weak Control Over The City's Cellular Phone Program Increases The Risk Of Abuse

During our audit of the City's Cellular Phone Program, we identified that the Program did not have adequate control over the acquisition and use of, and employee reimbursements for City cellular phones. Accordingly, we reviewed employee cellular phone usage information to identify inefficiencies or potential abuses. We also reviewed department processes for acquiring and authorizing cellular phones, reviewing for potential abuses, and collecting and processing employee reimbursements. We found that:

- The City has about 450 cellular phones with limited or no use;
- Departments do not consistently follow the City's Wireless Telephone Policy regarding the authorization to purchase and use a cellular phone for City business;
- City cellular phone usage indicates potential abuses;
- City departments do not consistently collect and report employee reimbursements for personal uses of City-issued cellular phones;
- The City reimbursement rate for personal calls is not cost recovery; and
- The City's Wireless Telephone Policy needs updating.

The City can strengthen controls over the Cellular Phone Program by 1) documenting procedures for the authorization and approval of cellular phone purchase and use; 2) developing a process to regularly review City cellular phone usage and vendor information for accuracy, abuse, and completeness; 3) implementing consistent and appropriate control of reimbursement processing and collections; 4) considering changing the reimbursement rate for personal use of City issued cellular phones; 5) considering alternatives to reduce personal call subsidies and improve the Cellular Phone Program administration; and 6) revising the outdated Wireless Telephone Policy.

**The City Has
About 450 Cellular
Phones With
Limited Or No Use**

The City retains and pays for 444 cellular phones with limited to no usage. Specifically, we found that the City has about 165 cellular phones with no usage and about 279 cellular phones with limited use under six hours (or 30 minutes per month). We should note that some cellular phones with limited use do serve a useful City purpose. For example, the San Jose Fire Department (SJFD) told us that it dedicates about 50 cellular phones to engines for use during emergency calls. Twenty of these cellular phones were removed from the limited or no-use phones. The City spent almost \$64,000 on these cellular phones with limited or no use.

Exhibit 1 Limited To Low Use Phone Costs And Usage

Number Of Annual Minutes	Number Of Phones	Annual Cost
0	165	\$9,101
1 to 50	80	\$12,958
51 to 100	58	\$11,560
101 to 150	31	\$6,512
151 to 200	27	\$5,384
201 to 250	24	\$5,319
251 to 300	23	\$4,598
301 to 360	36	\$8,239
Totals	444	\$63,671

**Departments Do
Not Consistently
Follow The City's
Wireless Telephone
Policy Regarding
The Authorization
To Purchase And
Use A Cellular
Phone For City
Business**

The Citywide Wireless Telephone Policy requires that departments must submit a Department Director-signed request for authorization to purchase and use a cellular phone for City business. According to the Wireless Telephone Policy, the request form should include specific information regarding the use of a cellular phone. Specifically, the form should include information about the potential savings resulting from having a cellular phone, projected annual costs, and employee job responsibilities that necessitate the need for a City-issued cellular phone.

We found that departments do not consistently follow the City's Wireless Telephone Policy. Departments use different methods for authorizing the purchase and use of City cellular phones. Some of these methods do not include their Department Director's signature or the information outlined in the Wireless Telephone Policy. Additionally, most departments do not conduct regular assessments of cellular phone use to identify any unnecessary cellular phones. This increases the risk that the City will pay for unnecessary cellular phones.

In our opinion, the City should create and maintain one authorization form that includes specific information to comply with the City's Wireless Telephone Policy and document Department Director approval. The form should include a signature from the employee indicating that the employee has read the City Wireless Telephone Policy and will abide by it. Moreover, the departments should undertake a thorough review and reauthorization to eliminate cellular phones that are unnecessary and to document Department Director authorization using the new City form. Further, the City should amend the existing Wireless Telephone Policy to require departments to regularly review cellular phone usage to identify those cellular phones that are no longer needed.

We recommend the City Administration and Departments:

Recommendation #1

- **Develop and use a universal written cellular phone authorization form that incorporates the elements of the City's Wireless Telephone Policy,**
- **Conduct a reauthorization review to identify unnecessary cellular phones and appropriately authorize necessary cellular phones, and**
- **Amend the City's existing Wireless Telephone Policy to require departments to regularly review cellular phone usage. (Priority 1)**

City Cellular Phone Usage Indicates Potential Abuse

The City's Wireless Telephone Policy states that employees should not use City-issued cellular telephones for regular personal purposes and that employees should exercise reasonable discretion in doing so. We found that City employees placed over 270,000 minutes of cellular phone calls to 24 non-408 California area codes and about 27,000 minutes of calls to 48 other states and ten countries. Further, City employees used City-issued cellular phones to regularly make

calls during off-work hours and for personal use. We found that there were nine departments that exceeded 12,000 minutes per year of non-408 area code out going calls.

During our review of the cellular phone call data, we found some employees with abnormally high usage and/or significant out of area and/or weekend calling. Specifically, we identified over 100 non-public safety employees with fairly consistent City-issued cellular phone usage seven days a week. Further, we found examples of employees using City-issued cellular phones to make a significant number of calls to non-408 area code numbers for which the employees paid little or no reimbursements to the City.

In our opinion, our analysis indicates possible violations of the City's Wireless Telephone Policy standard of appropriate and reasonable usage for personal use. We should note that some long distance and weekend usage may be legitimate. For example, Code Enforcement and Building inspectors call property owners and contractors outside of the local area. Additionally, some Code Enforcement inspectors work scheduled shifts on the weekends.

*Inconsistent Review
Of City Cellular
Phone To Identify
Personal Calls*

We found that departments do not consistently review bills to ensure that users do not use City cellular phones excessively for personal purposes.

The Citywide Wireless Telephone Policy states:

"... (personal usage shall) be limited to those calls which, in the reasonable discretion of the employee, are deemed to be appropriate. All City employees must continuously strive to minimize costs."

The City does not have a process to guide departments in identifying cellular phone abuse. We found that most of the departments rely on employees' self-reporting personal call usage. Further, some departments rely on one or two employees or supervisors to review numerous bills with high call volumes every month. In our opinion, the high volume and limited staff review increase the risk that excessive personal calls or other cellular phone abuses go unnoticed.

In our opinion, the City should develop a process to guide departments in efficiently and effectively reviewing electronic usage information regularly. Departments should initiate

reviews of existing phones to identify users'/departments' ownership and update vendor records to include current information.

We recommend the City Administration and Departments:

Recommendation #2

- **Develop a process to guide departments in identifying cellular phone abuse and**
- **Review existing City-issued cellular phones to identify users'/departments' ownership and update vendor records to include current information. (Priority 2)**

City Departments Do Not Consistently Collect And Report Employee Reimbursements For Personal Uses Of City-Issued Cellular Phones

The Citywide Wireless Telephone Policy states:

“Employees ... are required to review their monthly phone bills and reimburse the City for all charges associated with their personal calls, including toll charges, air time charges, and roomer [sic] charges, if any.”

We found that departments do not consistently collect and report employee reimbursement for personal uses of City-issued cellular phones. Some departments provide copies of monthly bills to employees for review and reimbursement of personal call purposes, while others do not. Some departments highlight personal calls on these bills and require employees to sign a form indicating that he or she reviewed the bill. Other departments do not provide copies of bills to employees on a monthly basis and do not follow a consistent, documented process to identify personal calls and collect proper reimbursements.

We also found that controls over employee payments for personal calls vary by department. In our opinion, this lack of consistency significantly increases the risk that employee reimbursements for personal calls will not be properly handled or recorded in the City's financial records. In some departments, there is little or no documentation over employee reimbursements for personal cellular phone calls.

In our opinion, the City needs to properly document that employee reimbursement for personal use of City-issued cellular phones are paid, received, and posted to the City financial records.

The City's Wireless Telephone Policy also specifies that Department Directors are responsible for assuring that the use of cellular telephones in their departments follow the City's Wireless Telephone Policy. However, we found that, in general, Directors are not sufficiently involved in ensuring departmental compliance with the City's Wireless Telephone Policy. In our opinion, each director should authorize one individual in their department to oversee the issuance, use of, and employee reimbursements for personal use of City-issued cellular phones and ensure compliance with the City's Wireless Telephone Policy.

We recommend that Departments:

Recommendation #3

- **Properly document that employee reimbursements for personal use of City-issued cellular phones are made, received, and posted to the City financial records. (Priority 2)**

Recommendation #4

- **Authorize one individual in each department to oversee the issuance, use of, and employee reimbursements for personal use of City-issued cellular phones, and ensure compliance with the City's Wireless Telephone Policy. (Priority 2)**

**The City
Reimbursement
Rate For Personal
Calls Is Not Cost
Recovery**

The City's Wireless Telephone Policy requires employees to reimburse for personal calls. We found that the \$0.12 per minute reimbursement rate does not cover the City's actual cost for each minute of usage. We calculated cost per minute by dividing each user's annual charges by their total usage. Specifically, we found that about 1,200 City-issued cellular phones exceeded an average cost of \$0.12 per minute. This indicates that reimbursements for personal calls may not be cost recovery, and the City subsidizes employees for making personal calls.

There are other options to improve the City's ability to reduce the risk of subsidizing personal cellular phone calls. For example, the City could provide employees with stipends to reduce the need to collect reimbursements and reduce the

administrative cost of reviewing bills for abuse and processing reimbursements. The City could also restrict the use of City cellular phones to only official business use.

In our opinion, the City should consider changing the reimbursement rate for personal use of City-issued cellular phones to reflect the actual cost of cellular phone usage. The City should also consider alternatives to reduce the potential for personal call subsidies and reduce administrative costs of the City's Cellular Phone Program.

We recommend the City Administration:

Recommendation #5

- **Consider changing the reimbursement rate for personal use of City-issued cellular phones to reflect the actual cost of cellular phone usage and**
- **Consider alternatives to reduce personal call subsidies and Cellular Phone Program administration costs. (Priority 1)**

The City's Wireless Telephone Policy Needs Updating

The City's Wireless Telephone Policy became effective in July 1989 and the City revised it in August 1994. A February 2001 addendum to the Wireless Telephone Policy indicates that the City is in the process of revising the Wireless Telephone Policy. As of November 2004, the City is still revising the Wireless Telephone Policy. The City needs to update its Wireless Telephone Policy to reflect current information and to add language to tighten controls over its Cellular Phone Program.

The Wireless Telephone Policy includes outdated information. For example, the Wireless Telephone Policy refers to the General Services Communication Management Division which the City moved to the Information Technology Department in 1996-97. In addition, the Wireless Telephone Policy is written to support a centralized cellular phone program when in fact the City decentralized the program into individual departments in 2003-04. In our opinion, the City should update the Wireless Telephone Policy to reflect new information and to address the recommendations in this report.

We recommend that the City Administration:

Recommendation #6

- **Update the City's Wireless Telephone Policy to reflect new information and reflect Recommendations 1 to 5 in this report. (Priority 3)**

CONCLUSION

During our audit of the City's Cellular Phone Program, we identified that the Program did not have adequate control over the acquisition and use of, and employee reimbursements for City cellular phones. As a result, the City is exposed to the risk of inefficient cellular phone use and abuse. We also identified inconsistencies between the City Wireless Telephone Policy and department processes for acquiring and authorizing cellular phones, reviewing for potential abuses, and collecting and processing employee reimbursements. We also found that the City's cellular phone reimbursement rate is not cost recovery, and the City's Wireless Telephone Policy is out of date.

The City can strengthen controls over the Cellular Phone Program by 1) documenting procedures for the authorization and approval of cellular phone purchases and use, 2) developing procedures to regularly review City employee usage of City-issued cellular phones, 3) consistently processing and reporting employee payments for personal uses of City-issued cellular phones, 4) considering changing the reimbursement rate for personal use of City-issued cellular phones, 5) considering alternatives to reduce personal call subsidies and improve the Cellular Phone Program administration, and 6) updating the City's Wireless Telephone Phone Policy.

RECOMMENDATIONS

We recommend the City Administration and Departments:

- Recommendation #1**
- **Develop and use a universal written cellular phone authorization form that incorporates the elements of the City's Wireless Telephone Policy,**
 - **Conduct a reauthorization review to identify unnecessary cellular phones and appropriately authorize necessary cellular phones, and**
 - **Amend the City's existing Wireless Telephone Policy to require departments to regularly review cellular phone usage. (Priority 1)**
- Recommendation #2**
- **Develop a process to guide departments in identifying cellular phone abuse and**
 - **Review existing City-issued cellular phones to identify users'/departments' ownership and update vendor records to include current information. (Priority 2)**

We recommend that Departments:

- Recommendation #3**
- **Properly document that employee reimbursements for personal use of City-issued cellular phones are made, received, and posted to the City financial records. (Priority 2)**
- Recommendation #4**
- **Authorize one individual in each department to oversee the issuance, use of, and employee reimbursements for personal use of City-issued cellular phones, and ensure compliance with the City's Wireless Telephone Policy. (Priority 2)**

We recommend the City Administration:

- Recommendation #5**
- **Consider changing the reimbursement rate for personal use of City-issued cellular phones to reflect the actual cost of cellular phone usage and**
 - **Consider alternatives to reduce personal call subsidies and Cellular Phone Program administration costs. (Priority 1)**

We recommend the City Administration:

Recommendation #6

- **Update the City's Wireless Telephone Policy to reflect new information and reflect Recommendations 1 to 5 in this report. (Priority 3)**

Other Pertinent Information

Cellular Phone Plans Are Not Cost Efficient And Result In Extra Unnecessary Charges

The City's Wireless Telephone Policy clearly states that cellular phones are costly to operate and expenditures need to be controlled. However, we found that the City incurred over \$200,000 in overage and extra charges above the standard monthly charge for City cellular phones. In August 2004, we presented a memorandum to the Making Government Work Better Committee recommending an alternative to reducing overage and extra charges.

Generally, each employee has a cellular phone plan with a specified number of minutes, or bucket, and usage over the bucket incurs overage charges. Each plan also includes a limit on the service area where calls can be made and received without incurring additional charges such as long distance charges. These areas can range from the local area to national plans. AT&T records indicate that the City maintains over 50 different rate plans.

The following table shows the number of calls that incurred extra charges and the total amount for these calls. There were 548,306 calls out of a total of 1,828,748 calls that incurred extra charges.

Exhibit 2 Calls Incurring Extra Charges

Department	Total Extra Charges	Number Of Calls
Airport	\$10,447	23,428
CAE	\$1,076	3,078
City Attorney	\$643	2,018
City Manager	\$2,287	5,007
DOT	\$31,487	102,833
ESD	\$12,119	36,721
Finance	\$669	825
Fire	\$20,348	56,015
General Services	\$21,470	61,844
Housing	\$2,761	7,555
HR	\$662	1,511
ITD	\$5,915	18,842
Library	\$2,166	8,592
N/A	\$1,750	6,895
OED	\$3,049	5,100
PBCE	\$20,617	48,430
Police	\$16,894	25,768
PRNS	\$19,751	51,214
Public Works	\$33,069	82,218
RDA	\$369	412
Total	\$207,549	548,306

Source: AT&T data.

We conducted a survey of cellular phone vendors to identify a lower-cost solution and presented our results to the Making Government Work Better Committee on August 19, 2004. (See Appendix C). Vendors offered less expensive pool plans that appear to better serve the City's need and may reduce extra charges. A pooled plan combines all cellular phone user minutes into one large City pool instead of providing smaller buckets to individual users. The survey includes plans with national service coverage and adequate pools of minutes to cover our existing usage. This pooled plan provides an alternative to reduce the likelihood that employees exceed their individual plan minutes or service area and incur extra charges.

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Administrator's Response

Appendix A

Appendix B

Appendix C

